GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:114
ANSWERED ON:10.08.2007
EFFECT OF CAPITAL INFLOW ON THE INDIAN ECONOMY
Scindia Shri Jyotiraditya Madhavrao

Will the Minister of FINANCE be pleased to state:

(a) whether Reserve Bank of India has expressed apprehensions against large capital in flows in the country as reported in the Hindustan Times dated June 19, 2007;

(b) if so, whether it will result in over-valuation of India`s currency and erode competitiveness of traditional and goods sector;

(c) if so, the extent of capital inflows during the 1st and 2nd quarter of the current year (2007-08) and the effect thereof on valuation of Indian currency and its competitiveness so far, compared to that during corresponding period last year; and

(d) the steps taken by the Union Government in this regard?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI P.K. BANSAL)

(a) and (b) In a paper presented by Deputy Governor, Reserve Bank of India (RBI) at an International Monetary Seminar organised by Banque de France on Globalisation, Inflation and Financial Markets in Paris on June 14, 2007, the following was stated in the context of the challenge of capital account liberalisation in India: `The large inflow of remittances and major and sustained spurt in software exports coupled with capital inflows have the potential for possible overvaluation of the currency and the resultant erosion of long-term competitiveness of other traditional and goods sectors - popularly known as the Dutch disease. Given the fact that more people are in the goods sector, the human aspects of the exchange rate management should not be lost sight of`.

(c) As per the advance release calendar of RBI, data on capital flows on BoP basis for the first quarter of 2007-08 would be released in end September 2007; the data on second quarter of 2007-08 will be released in end December 2007.

(d) Exchange rate policy of the RBI in recent years has been guided by the need to reduce excess volatility, prevent the emergence of destabilising speculative activities, help maintain adequate level of reserves, and develop an orderly foreign exchange market. In the context of appreciation in the value of rupee in the recent period, Government has announced a relief package to exporters comprising enhanced Duty Entitlement Passbook (DEPB) rates, reduction in Export Credit Guarantee Corporation (ECGC) premium, release of Rs.600 crore for clearing all arrears of terminal excise duty and Central Sales Tax reimbursement, enhancement of duty drawback rates and reduction in interest rates on pre and post shipment credit.